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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

vs.

STEVE CHEN, USFIA, INC.,
ALLIANCE FINANCIAL GROUP,
INC., AMAUCTION, INC.,
ABORELL MGMT I, LLC,
ABORELL ADVISORS I, LLC,
ABORELL REIT II, LLC, AHOME
REAL ESTATE, LLC, ALLIANCE
NGN, INC., APOLLO REIT I, INC.,
APOLLO REIT II, LLC, AMKEY,
INC., US CHINA CONSULTATION
ASSOCIATION, and QUAIL RANCH
GOLF COURSE, LLC

Defendants.

Case No. 2:15-cv-07425-RGK-KSx

**JOINT REPORT BY PLAINTIFF
SECURITIES AND EXCHANGE
COMMISSION AND DEFENDANTS
STEVE CHEN, *ET AL* PURSUANT TO
FED. R. CIV. P. 26(f) and L.R. 26-1**

Date: April 18, 2016

Time: 9:00 a.m.

Place: Courtroom of the Hon. R. Gary
Klausner

1 Plaintiff Securities and Exchange Commission (“SEC”) and Defendants Steve
 2 Chen (“Chen”), USFIA, Inc., Alliance Financial Group, Inc., Amauction, Inc., Aborell
 3 Mgmt. I, LLC, Aborell Advisors, LLC, Aborell Advisors I, LLC, Aborell REIT II, LLC,
 4 Ahome Real Estate, LLC, Alliance NGN, Inc., Apollo REIT I, Inc., Apollo REIT II,
 5 LLC, Amkey, Inc., US China Consultation Association, and Quail Ranch Golf Course,
 6 LLC. (“Entity Defendants”) (collectively “Defendants”) submit this Joint Report pursuant
 7 to Fed. R. Civ. P. 26(f) and L.R. 26-1, following conference of counsel on March 28,
 8 2016.¹

9 1. Timing of Initial Disclosures.

10 As the Court denied Chen’s Motion for Temporary Stay of Discovery and All
 11 Proceedings (the “Motion to Stay”) (Dkt. No. 49) on April 8, 2016, and at Chen’s
 12 request, to which the SEC has no objection, the parties jointly propose that the deadline
 13 for initial disclosures be extended until April 22, 2016, which is fourteen (14) days after
 14 the Court’s ruling on the Motion to Stay.

15 2. Subjects, Timing and Phases of Discovery.

16 a. SEC’s Position: The SEC proposes that all discovery in this matter,
 17 including expert discovery, be completed by November 18, 2016. Discovery will be
 18 needed on all factual allegations in the Complaint, as well as on all affirmative defenses
 19 set forth in Chen’s answer to the Complaint. Discovery need not be done in phases or
 20 limited to or focused upon particular issues, and the methods of discovery may be used in
 21 any sequence. The SEC specifically objects to Chen’s proposal that discovery be
 22 conducted in phases, with discovery of Chen being conducted last. Assuming Chen
 23 decides to testify substantively, his testimony might well point to the need to take other or
 24 further discovery. The SEC is entitled to depose Chen and he may well have to choose
 25 between testifying and asserting his Fifth Amendment rights, a choice he has previously
 26

27 ¹ Counsel for the court-appointed receiver and for non-party interveners Jennifer Li Zhao
 28 and Ally Investors LLC (Dkt. No. 38), also participated in the conference of counsel.

1 made in his Answer to the Complaint in this action, where he asserted his Fifth
2 Amendment privilege in response to every substantive allegation in the Complaint. The
3 SEC's complaint was filed on September 28, 2015, yet discovery has been on hold until
4 March 29, 2016, the date of the parties Rule 26(f) conference.

5 b. Chen's Position: Chen's position is that, given the wide breadth of the
6 allegations in this case, and the conflicting interests raised by the matters addressed in the
7 Motion to Stay, a November 2016 discovery cut-off is not realistic. Chen proposes that
8 fact discovery in this matter be completed by January 20, 2017, and expert discovery be
9 completed by April 14, 2017. In the event that any discovery of Chen is permitted or
10 compelled in this action, Chen further proposes that discovery should be conducted in
11 phases, with discovery of Chen being conducted last, in order to mitigate the substantial
12 burden any such discovery will impose on Chen's Fifth Amendment rights.

13 c. Zhao's Position: Ms. Zhao contemplates taking limited discovery and
14 believes that such discovery can be completed by whatever date to which the parties
15 agree or the Court orders.

16 3. Electronically Stored Information. The parties agree to exchange all
17 relevant, non-privileged electronically stored information. The parties recognize their
18 duty to preserve all relevant electronically stored information. The parties recognize that
19 much of the electronically stored information relevant to this action is under the custody
20 and control of the court-appointed receiver, and that pursuant to the Preliminary
21 Injunction Order entered in this action, that representatives of the SEC, and any other
22 government agency, are authorized to have continuing access to inspect or copy any or all
23 of the corporate books and records of the Entity Defendants, and continuing access to
24 inspect their funds, property, assets and collateral, wherever located, within the SEC's
25 jurisdiction. Dkt. No. 13. Given that neither Chen nor counsel for the court-appointed
26 receiver has waived their attorney-client privilege, the parties further recognize and agree
27 that the SEC may not inspect or copy any corporate books and records of the Entity
28 Defendants or Chen that are protected from disclosure by the attorney-client privilege or

1 other applicable privileges (the “Privileged Materials”). If the SEC has inspected or
2 copied any Privileged Materials to date, counsel for Chen requests that counsel for the
3 SEC promptly disclose this fact to the parties and the Court, so that the parties may take
4 appropriate remedial measures.

5 In addition, Chen has requested that the receiver preserve all amber or gem stones
6 seized from the Entity Defendants, including any pieces used in valuation reports, as well
7 as all supporting documentation and communications.

8 4. Privilege Issues.

9 Chen has previously invoked his Fifth Amendment right not to be compelled to
10 testify against himself in this action. *See, e.g.*, Dkt. Nos. 17, 24. Counsel for Chen
11 anticipates that Chen will likely continue to invoke his Fifth Amendment rights should
12 any discovery of Chen be permitted in this action.

13 The SEC notes that, in his answer to the Complaint, Chen asserted eleven
14 affirmative defenses, including good faith reliance on legal professionals. Dkt. No. 24
15 (Fourth Affirmative Defense). To the extent Chen continues to rely on such a defense,
16 the SEC’s position is that it will seek discovery of any otherwise privileged
17 communications relied upon by Chen in support of this affirmative defense, to the extent
18 permissible by law.

19 In addition, the parties understand that the court-appointed receiver currently has
20 custody and control of documents and electronically stored information which are
21 protected by the Entity Defendants’ attorney-client privileges. The parties further
22 understand that the court-appointed receiver, as the successor in interest to the Entity
23 Defendants, now holds the privilege for the Entity Defendants and may wish to waive the
24 privilege in the future. The parties anticipate that there may be a dispute regarding
25 waiver by the receiver that may necessitate motion practice.

26 Similarly, counsel for Chen contends that the court-appointed receiver currently
27 has custody and control of documents and electronically stored information which are
28 protected by Chen’s attorney-client privilege, as well as documents and electronically

1 stored information which are protected by both Chen and the Entity Defendants’
 2 attorney-client privileges. Counsel for Chen anticipates that, should either Chen or the
 3 receiver attempt to waive the attorney-client privilege as to documents or
 4 communications that Chen contends are currently jointly privileged as to Chen and the
 5 Entity Defendants, or should the court-appointed receiver attempt to waive the attorney-
 6 client privilege as to documents or communications that Chen contends are protected by
 7 Chen’s attorney-client privilege (or any other applicable privilege), a dispute may arise
 8 concerning the authority for or scope of any such waiver that may necessitate related
 9 motion practice.

10 5. Changes in the Limitations on Discovery.

11 a. SEC’s Position: The SEC does not intend to seek any changes in the
 12 limitations on discovery. As previously stated, the SEC specifically objects to Chen’s
 13 proposal that discovery be conducted in phases, with discovery of Chen being conducted
 14 last.

15 b. Chen’s Position: Chen reserves the right to seek a protective order
 16 concerning any discovery of Chen in this matter. As set forth above, Chen proposes that,
 17 should any discovery of Chen be compelled or permitted in this action, such discovery
 18 should be limited in scope and should only take place after discovery of all other parties
 19 and witnesses has been completed.

20 c. Zhao’s Position: Ms. Zhao does not intend to seek any changes in the
 21 limitations on discovery at this time.

22 6. Other Orders. None.

23 The parties submit the following pursuant to L.R. 26-1:

24 a. Complex Cases. The parties agree that this is not a complex case and
 25 the procedures of the Manual for Complex Litigation need not be utilized.

26 b. Motion Schedule.

27 i. SEC’s Position: The SEC proposes December 16, 2016 as the
 28 deadline for filing all dispositive motions, and January 20, 2017 as the last day to hear all

dispositive motions. These dates shall not preclude the SEC from filing dispositive motions on an earlier date.

ii. Chen's Position: Due to the wide breadth of allegations in this case, and the conflicting interests raised by the matters addressed in the Motion to Stay, Chen proposes May 26, 2017 as the deadline for filing all dispositive motions, and June 30, 2017 as the last day to hear all dispositive motions.

iii. Zhao's Position: Ms. Zhao believes, given the complexity of this case and the number of foreign witnesses, deadlines of May 26, 2017 for filing all dispositive motions and June 30, 2017 for hearing all dispositive motions are more reasonable.

c. Settlement. The parties agree on ADR Procedure No. 1. Chen is also amenable to ADR Procedure No. 3. The parties will file a statement to that effect on or before April 11, 2016, as required by the Order Setting Scheduling Conference.

d. Trial estimate.

i. SEC's Position: The SEC estimates that the trial will require eight court days (four days per side).

ii. Chens' Position: Chen estimates that the trial will require two weeks (10 court days). Chen proposes that trial commence no earlier than 120 days after the deadline for completion of expert discovery.

iii. Zhao's Position: Ms. Zhao takes no position as to the length of the trial between the SEC and Chen. Ms. Zhao believes that trial with respect to any claims that may be brought by the Receiver or the SEC against her will require 5 court days.

e. Additional Parties. The parties do not anticipate any additional parties in this case.

f. Expert Witnesses.

i. SEC's Position: The SEC proposes that the parties

1 simultaneously disclose expert testimony pursuant to Fed. R. Civ. P. 26(a)(2) no later
2 than October 7, 2016, and exchange any rebuttal expert reports no later than October 24,
3 2016.

4 ii. Chen's Position: Chen proposes that the parties simultaneously
5 exchange expert reports no later than March 10, 2017 and exchange any rebuttal expert
6 reports no later than March 24, 2017.

7 iii. Zhao Position: Ms. Zhao does not anticipate designating any
8 experts at this time.

9
10 Dated: April 11, 2016

/s/ Donald W. Searles

DONALD W. SEARLES

PETER DEL GRECO

Attorneys for Plaintiff

Securities and Exchange Commission

14
15 Dated: April 11, 2016

Bird, Marella, Boxer, Wolpert, Nessim,
16 Drooks, Lincenberg & Rhow, P.C.

17
18
19 By: /s/ Paul S. Chan

Paul S. Chan

Attorneys for Defendant Steve Chen

20
21
22
23
24
25 DATED: April 11, 2016

ZACCARO MORGAN LLP

26
27 By: /s/ Thomas A. Zaccaro

THOMAS A. ZACCARO

Attorneys for Non-Party

Li Zhao and Ally Investors LLC

PROOF OF SERVICE

I am over the age of 18 years and not a party to this action. My business address is:

U.S. SECURITIES AND EXCHANGE COMMISSION,
444 S. Flower Street, Suite 900, Los Angeles, California 90071
Telephone No. (323) 965-3998; Facsimile No. (213) 443-1904.

On April 11, 2016, I caused to be served the document entitled **JOINT REPORT BY PLAINTIFF SECURITIES AND EXCHANGE COMMISSION AND DEFENDANTS STEVE CHEN, ET AL PURSUANT TO FED. R. CIV. P. 26(f) and L.R. 26-1** on all the parties to this action addressed as stated on the attached service list:

☐ **OFFICE MAIL:** By placing in sealed envelope(s), which I placed for collection and mailing today following ordinary business practices. I am readily familiar with this agency's practice for collection and processing of correspondence for mailing; such correspondence would be deposited with the U.S. Postal Service on the same day in the ordinary course of business.

☐ **PERSONAL DEPOSIT IN MAIL:** By placing in sealed envelope(s), which I personally deposited with the U.S. Postal Service. Each such envelope was deposited with the U.S. Postal Service at Los Angeles, California, with first class postage thereon fully prepaid.

☐ **EXPRESS U.S. MAIL:** Each such envelope was deposited in a facility regularly maintained at the U.S. Postal Service for receipt of Express Mail at Los Angeles, California, with Express Mail postage paid.

☐ **HAND DELIVERY:** I caused to be hand delivered each such envelope to the office of the addressee as stated on the attached service list.

☐ **UNITED PARCEL SERVICE:** By placing in sealed envelope(s) designated by United Parcel Service ("UPS") with delivery fees paid or provided for, which I deposited in a facility regularly maintained by UPS or delivered to a UPS courier, at Los Angeles, California.

☒ **ELECTRONIC MAIL:** By transmitting the document by electronic mail to the electronic mail address as stated on the attached service list.

☒ **E-FILING:** By causing the document to be electronically filed via the Court's CM/ECF system, which effects electronic service on counsel who are registered with the CM/ECF system.

☐ **FAX:** By transmitting the document by facsimile transmission. The transmission was reported as complete and without error.

I declare under penalty of perjury that the foregoing is true and correct.

Date: April 11, 2016

/s/ Amanda Liston

Amanda Liston

SEC v. STEVE CHEN, et al.
United States District Court—Central District of California
Case No. 2:15-cv-07425-RGK-PLA

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